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SUBJECT: GISCARD'S POLICIES TOWARDS THE U.S. AND EUROPE:
ECONOMIC ASPECTS

DEPT PASS AGRICULTURE

SUMMARY: FRENCH FOREIGN ECONOMIC INTERESTS AND POLICY
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CONCERNS UNDER PRESIDENT GISCARD WILL BE VIRTUALLY THE

SAME AS UNDER POMPIDOU. MOREOVER, GIVEN GISCARD'S CLOSE IDENTIFICATION AS FINANCE MINISTER WITH MOST FRENCH FOREIGN ECONOMIC POLICIES OVER THE PAST YEARS, WE SEE LITTLE REASON TO EXPECT SIGNIFICANT CHANGES IN FRANCE'S OUTLOOK TOWARD MAJOR INTERNATIONAL ECONOMIC AND FINANCIAL QUESTIONS. WHILE GISCARD'S PRAGMATISM, GENERALLY LIBERAL TRADE OUTLOOK, AND RELATIVELY GREATER OPENNESS TO U.S. IDEAS MAY MAKE SOME OF OUR ECONOMIC DEALINGS WITH FRANCE LESS STRAINED THAN IN THE PAST, FRANCE'S ECONOMIC SELF-INTEREST AND ITS IDENTIFICATION WITH EUROPEAN COOPERATION WILL CONTINUE TO BE THE PIVOTAL POINT OF GISCARD'S FOREIGN ECONOMIC POLICY. END SUMMARY.

1. A MAJOR SOURCE OF FRICTION BETWEEN FRANCE AND THE U.S. OVER THE LAST THREE YEARS HAS BEEN DIFFERENCES OVER INTERNATIONAL ECONOMIC ISSUES. ANY DISCUSSION OF GISCARD'S POLICIES ON ECONOMIC ISSUES OF INTEREST TO THE U.S. MUST BEGIN WITH RECOGNITION OF THE FACT THAT HE, SUBJECT ONLY TO THE ULTIMATE AUTHORITY OF POMPIDOU, WAS A MAJOR ARCHITECT OF THESE POLICIES IN HIS CAPACITY AS MINISTER NOT ONLY OF FINANCE BUT ECONOMIC AFFAIRS AS WELL. WITH ONE EXCEPTION, ENERGY, THERE IS NO EVIDENCE THAT HE EVER HAD ANY SERIOUS RESERVATIONS ABOUT FRANCE'S FOREIGN ECONOMIC POLICY DURING THIS PERIOD.

2. WE DISCUSS THE POLICIES WE EXPECT GISCARD TO FOLLOW ON ECONOMIC ISSUES OF DIRECT INTEREST TO THE U.S. UNDER THE FOLLOWING HEADINGS: TRADE, MONETARY, ENERGY, AND INVESTMENT. HIS POLICIES ON CURRENT EC ECONOMIC ISSUES WILL BE DISCUSSED UNDER THE HEADINGS: ECONOMIC AND MONETARY UNION, TRADE POLICY, AND THE CAP.

I. POLICIES TOWARDS U.S.

A. TRADE - FRANCE'S TRADE POLICY UNDER GISCARD HAS BEEN CHARACTERIZED BY MODERATE SUPPORT OF TRADE LIBERALIZATION COMBINED WITH SKILLFUL AND PERSISTENT DEFENSE OF FRENCH ECONOMIC INTERESTS, ESPECIALLY THE CAP. WE EXPECT THIS TO CONTINUE. IN PARTICULAR, WE EXPECT NO CHANGE IN FRENCH OPPOSITION TO MEANINGFUL LIBERALIZATION OF TRADE LIMITED OFFICIAL USE

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IN AGRICULTURE AND ESPOUSAL OF THE COMMODITY AGREEMENT APPROACH NOR IN ITS PREFERENCE FOR THE TARIFF-CUTTING TECHNIQUE OF HARMONIZATION AS OPPOSED TO ACROSS-THE-BOARD CUTS.

B. MONETARY REFORM - GISCARD'S APPROACH TO INTERNATIONAL MONETARY REFORM HAS TENDED OVER THE YEARS TO PUT HIM IN OPPOSITION TO U.S. NEGOTIATORS ON MANY KEY

ISSUES. THUS, DURING IMF COMMITTEE OF TWENTY DISCUSSIONS HE HAS BEEN ADVOCATE OF CENTRALIZED, MANDATORY CONVERTIBILITY AND HEAVY RELIANCE ON CONTROLS TO COPE WITH INTERNATIONAL MONEY FLOWS -- TO NAME ONLY TWO MAJOR AREAS WHERE U.S. VIEWS ARE DIFFERENT. CONVERSELY, HE HAS BEEN COOL TO SUCH CONCEPTS AS EXCHANGE RATE FLEXIBILITY AND PRESUMPTIVE RESERVE INDICATOR, EVEN THOUGH IN AGREEMENT WITH PRINCIPLE THAT ADJUSTMENT PROCESS SHOULD BE STRENGTHENED. PRAGMATICALLY, HE HAS JOINED EMERGING CONSENSUS WITHIN C-20 THAT SDR SHOULD BECOME PRINCIPAL RESERVE ASSET AND NUMERAIRE OF REFORMED SYSTEM. AT THE SAME TIME, HE HAS MANEUVERED EFFECTIVELY, PARTICULARLY IN EUROPEAN CONTEXT, IN FAVOR OF ARRANGEMENTS FOR GOLD TRANSACTIONS BY CENTRAL BANKS THAT WOULD HAVE EFFECT OF PRESERVING SIGNIFICANT MONETARY ROLE FOR GOLD. THE INTERNATIONAL CONSEQUENCES OF OIL PRICE INCREASES HAVE

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LED HIM TO QUALIFY HIS POSITIONS IN TWO IMPORTANT RESPECTS. FIRST, HE HAS CONCLUDED THAT OVERALL REFORM MUST BE DEFERRED UNTIL PRESENT ACUTE PHASE OF ENERGY CRISIS IS PASSED. SECOND, WITH FLOATING OF FRANC LAST JANUARY, HE HAS ASSOCIATED HIMSELF AND FRANCE WITH VIEW-POINT THAT IT IS SIMPLY NOT PRACTICAL TO MAINTAIN FIXED LIMITED OFFICIAL USE

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RATE STRUCTURE IN FACE OF PRESENT UNCERTAIN WORLD FINANCIAL OUTLOOK. WE WOULD EXPECT PRESIDENT GISCARD TO REMAIN FAITHFUL TO THESE POLICIES OF FINANCE MINISTER GISCARD.

C. ENERGY - FRENCH ENERGY POLICY APPEARS TO HAVE BEEN ONE AREA OF FOREIGN ECONOMIC POLICY IN WHICH GISCARD DID NOT HAVE A MAJOR VOICE. THIS POLICY APPEARS TO HAVE BEEN LARGELY THE WORK OF PRESIDENT POMPIDOU HIMSELF, SECONDED BY JOBERT AND THE MIDDLE EAST HANDS IN THE FOREIGN OFFICE. IT WAS CHARACTERIZED BY A PREFERENCE FOR BILATERAL DEALS WITH PRODUCER COUNTRIES AND REFUSAL TO ACCEPT U.S. LEADERSHIP OF THE ENERGY ACTION PROGRAM. WE HAVE REASON TO BELIEVE THAT GISCARD OPPOSED MUCH OF THIS APPROACH BUT WAS UNWILLING TO MAKE AN ISSUE OF IT WITH POMPIDOU BECAUSE HE WANTED POMPIDOU'S SUPPORT FOR HIS PRESIDENTIAL AMBITIONS. EVENTS HAVE PROVEN THAT POMPIDOU'S AND JOBERT'S CONFIDENCE IN BILATERAL AGREEMENTS WITH ARAB COUNTRIES WAS MISPLACED. CONSEQUENTLY, IT SHOULD BE EASIER FOR GISCARD TO FOLLOW HIS NATURAL INCLINATION TO COOPERATE MORE CLOSELY WITH U.S. INITIATIVES IN THE ENERGY FIELD. ON THE OTHER HAND, WE WOULD NOT EXPECT HIM TO REVERSE POMPIDOU'S DECISION TO STAY OUT OF THE ENERGY COORDINATING GROUP. HE CAN ALSO BE EXPECTED TO REAFFIRM GOF SUPPORT FOR THE EC DECISION ON COOPERATION WITH THE ARAB STATES.

D. INVESTMENT - WHEN QUESTIONED DURING CAMPAIGN INTERVIEW ON HIS ATTITUDE TOWARDS FOREIGN INVESTMENT IN FRANCE, GISCARD EMPHASIZED THAT FRANCE WAS "ONLY COUNTRY

IN THE WEST TO MAINTAIN PERMANENT CONTROL ON DIRECT INVESTMENT." HE WENT ON TO SAY THAT AS FINANCE MINISTER HE HAD PRESIDED OVER APPLICATION OF CONTROLS TO INSURE THAT ALL INVESTMENT PROPOSALS WERE CONSISTENT WITH FRENCH NATIONAL INTEREST, AND TO PLEDGE CONTINUATION OF THIS POLICY, IF ELECTED PRESIDENT. GISCARD'S PLEDGE CAN BE TAKEN AT FACE VALUE. HE WILL CERTAINLY MAINTAIN LIBERAL ATTITUDE OF RECENT YEARS TOWARDS NEW INVESTMENT APPLICATIONS FROM AMERICAN AND OTHER FOREIGN INTERESTS, PARTICULARLY TOWARDS THOSE PROMISING NEW TECHNOLOGY, EXPANSION OF EXPORTS OR CREATION OF JOBS. BUT THERE WILL LIMITED OFFICIAL USE

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ALSO BE TURNDOWNS ON OCCASION - TO PROTECT WHAT FRANCE REGARDS AS SENSITIVE INDUSTRIAL SECTORS OR TO BLOCK FOREIGN INTERESTS FROM ACQUIRING "A DOMINANT POSITION" IN GIVEN INDUSTRY. ESTABLISHED AMERICAN FIRMS HAVE LONG ENJOYED GENERALLY EQUITABLE TREATMENT HERE, AND THERE IS LIKEWISE EVERY REASON TO EXPECT THAT THIS STATE OF AFFAIRS WILL CONTINUE TO PREVAIL.

II. EUROPEAN POLICIES

A. ECONOMIC AND MONETARY UNION - GISCARD IS KNOWN TO BE VERY EUROPEAN-MINDED AND THERE ARE INDICATIONS THAT HE INTENDS TO PLACE THE PRINCIPAL EMPHASIS OF FRANCE'S FOREIGN POLICY ON STRENGTHENING EUROPE. IT IS WIDELY BELIEVED THAT GISCARD WILL LAUNCH AN IMPORTANT INITIATIVE AFTER FRANCE TAKES OVER THE EC PRESIDENCY ON JULY 1 IN AN ATTEMPT TO COUNTER THE FORCES OF DISINTE-

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GRATION WHICH HAVE THREATENED EUROPEAN UNITY IN RECENT MONTHS. INDEED, IT HAD BEEN EXPECTED THAT THIS WOULD HAVE HAPPENED EVEN IF POMPIDOU HAD LIVED -- THERE HAVE BEEN REPORTS THAT GISCARD'S MINISTRY WAS PREPARING NEW PROPOSALS IN THE FIELD OF MONETARY COOPERATION, POSSIBLY SOME LOOSER ALTERNATIVE TO THE SNAKE AS IT NOW EXISTS. LIMITED OFFICIAL USE

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CONSEQUENTLY, WE WOULD NOT BE SURPRISED IF GISCARD WERE TO PROPOSE SOME INITIATIVE ON MONETARY COOPERATION WITHIN THE COMMUNITY IN THE NEAR FUTURE.

B. TRADE - GIVEN GISCARD'S PREFERENCE FOR MODERATELY LIBERAL TRADE POLICIES AND AN EXPORT-ORIENTED FRENCH ECONOMY, WE WOULD EXPECT HIM TO TAKE THE LEAD IN AN ATTEMPT TO HALT THE DRIFT TOWARD PROTECTIONISM WITHIN THE COMMUNITY, WORKING CLOSELY WITH A LIKE-MINDED CHANCELLOR SCHMIDT IN THIS ENDEAVOR.

C. CAP - FRANCE'S SUPPORT FOR THE EC RESTS ON A FIRM FOUNDATION OF BENEFITS TO FRANCE FROM THE CAP AND

WE DO NOT EXPECT ANY SIGNIFICANT CHANGE IN THE BASIC POLICY OF VIGOROUS DEFENSE OF THE CAP. HOWEVER, THE FINANCE MINISTRY UNDER GISCARD HAS BEEN THE SOURCE OF OCCASIONAL COMPLAINTS ABOUT THE HIGH COST OF CAP PROGRAMS, AND IT IS POSSIBLE THAT GISCARD WILL BE MORE SYMPATHETIC TO CAP REFORMS THAN HIS PREDECESSOR, ESPECIALLY, GIVEN THE CURRENT CONCERN ABOUT INFLATION, THOSE THAT REDUCE COSTS. HOWEVER, STRONG PRESSURES EXIST NOW AMONG FRENCH AGRICULTURAL GROUPS TO RAISE EC SUPPORT PRICES OF SEVERAL PRODUCTS AND THUS POSSIBLY INCREASE CAP COSTS. GISCARD BASED HIS ELECTION CAMPAIGN ON A CLOSE IDENTIFICATION WITH THE POMPIDOU POSITION OF A STRONG SUPPORT OF FRENCH AGRICULTURE AND THE FARMERS GAVE HIM A COMFORTABLE MAJORITY. CONSEQUENTLY, HE WOULD FIND IT RISKY TO SUPPORT ANY REFORM OF THE CAP WHICH WOULD AFFECT FRANCE'S POSITION AS PRINCIPAL BENEFICIARY OF THE SYSTEM. BY THE SAME TOKEN, WE EXPECT HIM TO CONTINUE THE PRESENT STRONG FRENCH DETERMINATION TO RESIST ANY BRITISH PROPOSAL FOR MAJOR RENEGOTIATION OF THE TREATY OF ROME AND TO SHOW LITTLE SYMPATHY FOR BRITAIN'S ATTEMPT TO OBTAIN A REDUCTION OF ITS SHARE OF THE EC'S BUDGET.

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